

## Message Text

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 3945

INFO AMCONSUL RIO DE JANEIRO

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C O R R E C T E D C O P Y (MRN 1347 VICE 21347)

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SUBJECT: BRAZILIAN EXPORT INCENTIVES ON SOYBEANS

REF: (A) 75 BRASILIA 11032, (B) 75 STATE 295183, (C) BRASILIA 345,

(D) 75 BRASILIA A-185, (E) 75 BRASILIA A-166, (F) 74 RIO DE

JANEIRO A-63, (G) 75 BRASILIA 6313, (H) STATE 82861,

(I) BRASILIA 1184 (TOFAS 23), (J) BRASILIA 11032

1. EMBASSY HAS COMPLETED ITS REVIEW OF GOB EXPORT INCENTIVES SYSTEM FOR SOYBEANS AND SOYBEAN PRODUCTS REQUESTED IN REFTEL B. THE PRINCIPAL CONCLUSIONS SET FORTH IN REFS A AND B STAND WITH ONLY A FEW EXPANSIONS OF DETAIL CONTAINED IN REF J.

THE PRINCIPAL CONCLUSIONS OF OUR REVIEW ARE:

(A) EXPORTS OF SOYBEAN OIL IN BULK RECEIVE SUBSTANTIAL DIRECT EXPORT SUBSIDIES (INCLUDING IPI/ICM CREDITS, ICM EXEMPTION, INCOME TAX EXEMPTION, LOW-INTEREST FINANCING: (B) EXPORTS OF SOYBEANS RECEIVE NO DIRECT EXPORT SUBSIDY: (C) EXPORTS OF SOYBEAN MEAL SUFFER FROM A DISINCENTIVE (ICM) TO EXPORTS WHICH PROBABLY OUTWEIGHS THE ADVANTAGES OF LOW INTEREST

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LOANS FOR EXPORTS: AND (D) THE NET SUBSIDY OF CRUSHERS,

WHICH PRODUCE OIL AND MEAL AS A JOINT PRODUCT, IS MODERATED BY THE LOW PORPORTION OF EXPORTS OF SUBSIDIZED OIL (30 PERCENT OF TOTAL PRODUCTION IN 1975) AND THE HIGH PROPORTION OFF EXPORTS OF "EXPORT-TAXED" SOYBEAN MEAL (75 PERCENT OF TOTAL PRODUCTION).

2. EMBASSY CONFIRMS INFORMATION IN REF A ON IPI-ICM CREDITS, ICM TAXES, AND IPI TAXES, WITH THE MODIFICATIONS AND EXPANSIONS GIVEN IN REF J. A FURTHER EXPANSION OF THE RATIONALE IN THELAST SENTENCE OF REF A, PARA 5 IS THAT PRACTICALLY ALL DOMESTICALLY-CONSUMED SOYBEAN MEAL IS USED IN MIXED FEEDS, EVEN THOUGH THESE COULD BE CONSIDERED A FINISHED OR PROCESSED PRODUCT. THE APPARENT PURPOSE OF THE GOB IN EXEMPTING MIXED FEEDS FROM THE ICM AND IPI IS TO ENCOURAGE POULTRY AND PORK PRODUCERS TO USE THESE PRODUCTS.

3. OTHER MONOR INCENTIVES.

--A) IPF EXEMPTION. UNDER CERTAIN CONDITIONS, RURAL CREDIT IS EXEMPTED FROM THE FINANCIAL OPERATIONS TAX (IOF), BUT THE ELIGIBILITY CONDITIONS MAKE NO DISTINCTION BETWEEN CREDIT WHICH SUPPORTS PRODUCTION FOR EXPORT AND CREDIT WHICH SUPPORTS PRODUCTION FOR THE DOMESTIC MARKET. THE CONDITIONS ARE SET FORTH IN REF D, PAGE 9. THE EXEMPTION CONDITIONS FOR MANUFACTURED EXPORTS ARE DESCRIBED IN REF E, PAGE 7. IT APPEARS TO US, EVEN IN THE ABSENCE OF DATA BY INDIVIDUAL FIRMS, THAT THE BENEFIT FROM THIS INCENTIVE IS INSIGNIFICANT.

--B) DRAWBACK SYSTEM. WE LACK INFORMATION ON THE EXTENT TO WHICH CRUSHERS CAN AND DO BENEFIT FROM THE DRAWBACK SYSTEM (DUTY OR TAX EXEMPTIONS FOR MACHINERY IMPORTED TO PRODUCE PRODUCTS FOR EXPORT) ON MACHINERY IMPORTS FOR CRUSHING PLANTS . CONGEN SAO PAULO FOUND ONE EXAMPLE WHERE A CRUSHER OBTAINED SUCH BENEFITS, BUT THE VALUE OF THE IMPORTED MACHINERY IN RELATION TO THE TOTAL COST OF THE PRODUCT WAS QUITE SMALL. DETAILED INFORMATION ON USAGE AND BENEFITS OF THE DRAWBACK SYSTEM, HOWEVER, WOULD REQUIRE A MILL-BY-MILL SURVEY. AS WE UNDERSTAND IT, INCENTIVES GRANTED BY THE INDUSTRIAL DEVELOPMENT COUNCIL (CDI)

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HAVE VARIED OVER THE YEARS, WITH SOME IMPORTS COMING IN COMPLETELY FREE OF TAXES (ALTHOUGH NEVER WITH ANY CREDIT BEYOND THE FORGIVENESS) AND OTHERS PAYING TAXES. FINALLY, WITH THE GOB MEASURES OF DECEMBER 2, THE GROUND RULES HAVE CHANGED AND IMPORT TAX EXEMPTIONS ARE GENERALLY OUT: INSTEAD, ONLY REDUCTIONS ARE GRANTED AS INCENTIVES NOW. FURTHERMORE, THE IMPORT MEASURES PROBABLY WILL RESULT IN REDUCED IMPORTS, AND THUS MORE LIMITED OPPORTUNITIES TO USE

THE DRAWBACK SYSTEM. IN SUM, WE DOUBT THAT THE DRAWBACK BENEFITS ARE ECONOMICALLY VERY SIGNIFICANT.  
-C) FUEL SOLE TAX EXEMPTION. THE IMPLEMENTING REGULATIONS OF THIS EXEMPTION STILL HAVE NOT BEEN ISSUED, AS FIRST NOTED REF F. IN ANY CASE, A SURVEY WOULD BE REQUIRED TO DETERMINE WHETHER THE FUEL TAX AMOUNTS TO MORE THAN 2 PERCENT OF THE FOB PRICE OF BEAN, MEAL, OR OIL EXPORTS, AS REQUIRED FOR AN EXEMPTION.

4. WE ARE UNABLE TO PROVIDE DEFINITIVE CALCULATIONS ON THE COMBINED IMPACT OF ALL THE INCENTIVES.  
TO DO THIS, WE WOULD NEED FIRM- LEVEL DATA ON THE ACTUAL USAGE OF INCENTIVES. AS WE HAVE LEARNED FROM COUNTERVAILING DUTY INVESTIGATIONS, USAGE CAN IN MOST CASES DIFFER SIGNIFICANTLY FROM THE AMOUNT OF POTENTIAL INCENTIVES.

5. BRAZILIAN EXPORTS AND TRADE DISPLACEMENT. WE CANNOT, ON THE BASIS OF THE DATA AVAILABLE TO US, MAKE ANY ESTIMATES OF THE TRADE DISPLACEMENT EFFECT OF THE SUBSIDIES ON U.S. EXPORTS OF OIL. DATA ON THE PATTERN OF BRAZILIAN EXPORTS (THE MOST RECENT DATA BY MAJOR DESTINATION IS CONTAINED IN REF I) SHOW THAT SOME MARKETS ARE SHARED BY THE U.S. AND BRAZIL AND OTHER MARKETS ARE SPECIALIZED TO ONE DOMINANT SOURCE. FOR EXAMPLE, COMPARING FY 1975 U.S. EXPORT DATA, THE LATEST AVAILABLE TO US, WITH CY 1975 BRAZILIAN DATA, WE FIND THAT: (A) BRAZIL'S OIL EXPORTS, 268,000 TONS IN CY 1975, ARE 43 PERCENT OF THE LEVEL OF U.S. EXPORTS, AND (B) MAJOR DESTINATIONS FOR BRAZILIAN SOYBEAN OIL EXPORTS ARE: IRAN IS THE LRGEST SINGLE MARKET FOR U.S. AND BRAZIL (BUT U.S. SALES ARE TWO-AND-ONE-HALF TIMES BRAZILIAN SALES); MOROCCO AND TURKEY ARE THE NEXT LARGEST BRAZILIAN MARKETS BUT ARE RELATIVELY SMALL U.S. LIMITED OFFICIAL USE

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MARKETS: PERU IS THE FOURTH-LARGEST MARKET FOR BOTH COUNTRIES: TUNISIA IS BRAZIL'S FIFTH-LARGEST AND OR SEVENTH-LARGEST MARKET. WHETHER THIS NOT-ALWAYS-PARALLEL PATTERN OF EXPORTS IS DUE TO SUBSIDIES, TO AGGRESSIVE SALES EFFORTS IN CERTAIN AREAS, TO THE DESIRE OF CUSTOMERS TO DIVERSIFY THEIR SOURCES OF SUPPLY (AN IMPOSSIBILITY PRIOR TO BRAZIL'S ADVENT AS A MAJOR EXPORTER), TO OTHER CHANGES IN RELATIVE PRICES OR PRODUCT QUALITY IN CERTAIN USES, OR TO OTHER REASONS IS, WE BELIEVE, VERY DIFFICULT TO ESTABLISH EMPIRICALLY.

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